

Role of CSDs in Implementing Cross-Border Investment

- 27 September 2018 - Tashkent, Uzbekistan
- 15th AECSD Conference





Contents

- I. CSD & Back-office Operations
- II. Asian CSDs Experience
- III. Implications



- **History:** Established as Korea Securities Settlement Corporation in 1974
Re-established as Korea Securities Depository in 1994
- **Entity Character:** Non-profit seeking, special public organization under FSCMA*
* Financial Investment Services and Capital Market Act
- **Function:** Centralized deposit, book-entry transfer, etc
- **Shareholders:** 57 institutions
- **Employees:** 651
- **Organization:** 8 Divisions, 29 Departments
3 Branches
- **Location:** Busan HQ, Seoul office,
Ilsan center, H.K Rep office



Eligible Participants

1,244



Market Value of Deposited Securities

3,997 trillion *krw*
(3.6 trillion usd)



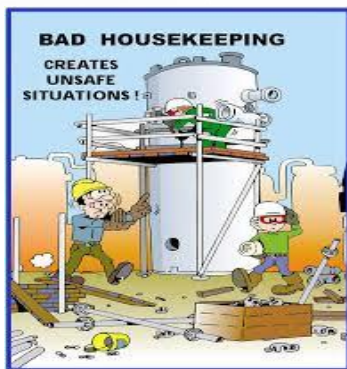
I. CSD & Back-office Operations

II. Asian CSDs Experience

III. Implications

■ Housekeeping & Plumbing in Cross-Border Investment (CBI)

- *Determination of whether a country has potential investment opportunities or not is influenced by a number of factors, especially related to size, quality of “Housekeeping,” (macroeconomic policies, political economy, local financial markets, corporate governance, and so on), and efficiency of “Plumbing” (legal and regulatory framework, taxes, **custody, clearing and settlement**, and so on) (Housekeeping and Plumbing: The Investability of Emerging Markets, J.Ladearl & S.Zervos, WB,2004)*



CSD & Back-office Operations: **Inefficient Plumbing**

■ **A Case: Plumbing fails in CBI**

- *"My local broker continuously delays cash-repatriation even couple of weeks after sell trades were settled. Operational cost is going up. My clients keep complaining. Can you consider to officially provide custody for this market ?"*



DELAYED

FAIL



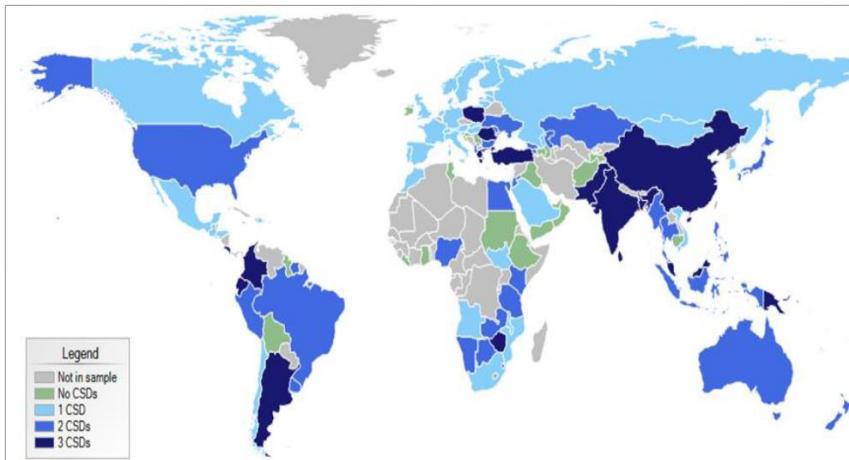
■ **Solution by KSD**

- Fact-finding: Obstacle & probability
- Cooperate with relevant entities (GC, local regulator/CSD/exchange, etc)
- Tailor-made solution to launch custody through GC network
- Having more Korean brokers entering in the market

■ CSD as Securities Market Infrastructure to support CBI activities

- *Central securities depositories (CSDs) are systemically important entities that are critical for effective implementation of monetary policy, the credibility of a government's debt management program, collateral management, and **safe and efficient securities markets**..... (IMF, Mar 2018)*

(Global Map of CSDs, IMF)



- ✓ Role of CSD in enhancing the well-functioning of securities markets not only in domestic but also in cross-border market
- ✓ CSD as SMI maximizes investment efficiency in CBI

CSD & Back-office Operations: **Background**

- **More CSDs jumping into CBI support services**
- **Globalization of investment activity**

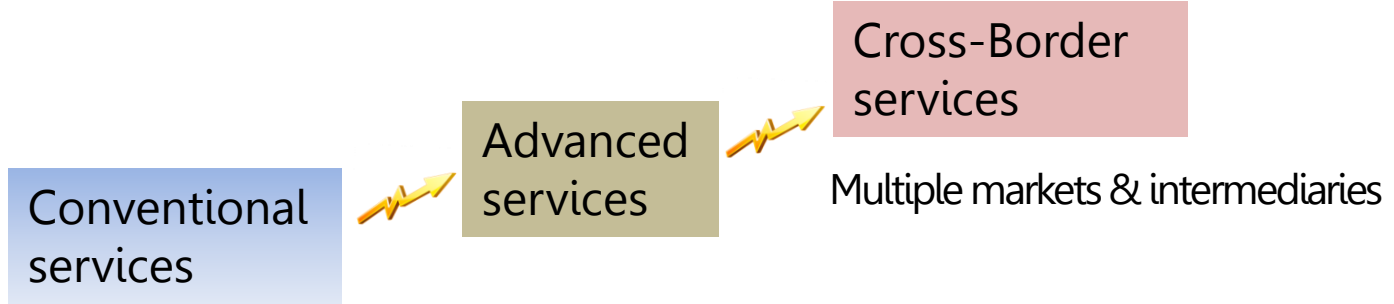


- New investment source in search of higher returns
- Risk management by allocating portfolio in diverse markets
- Deregulation to open doors to foreign investors

- **Diversification of CSD business**



- CSD evolution

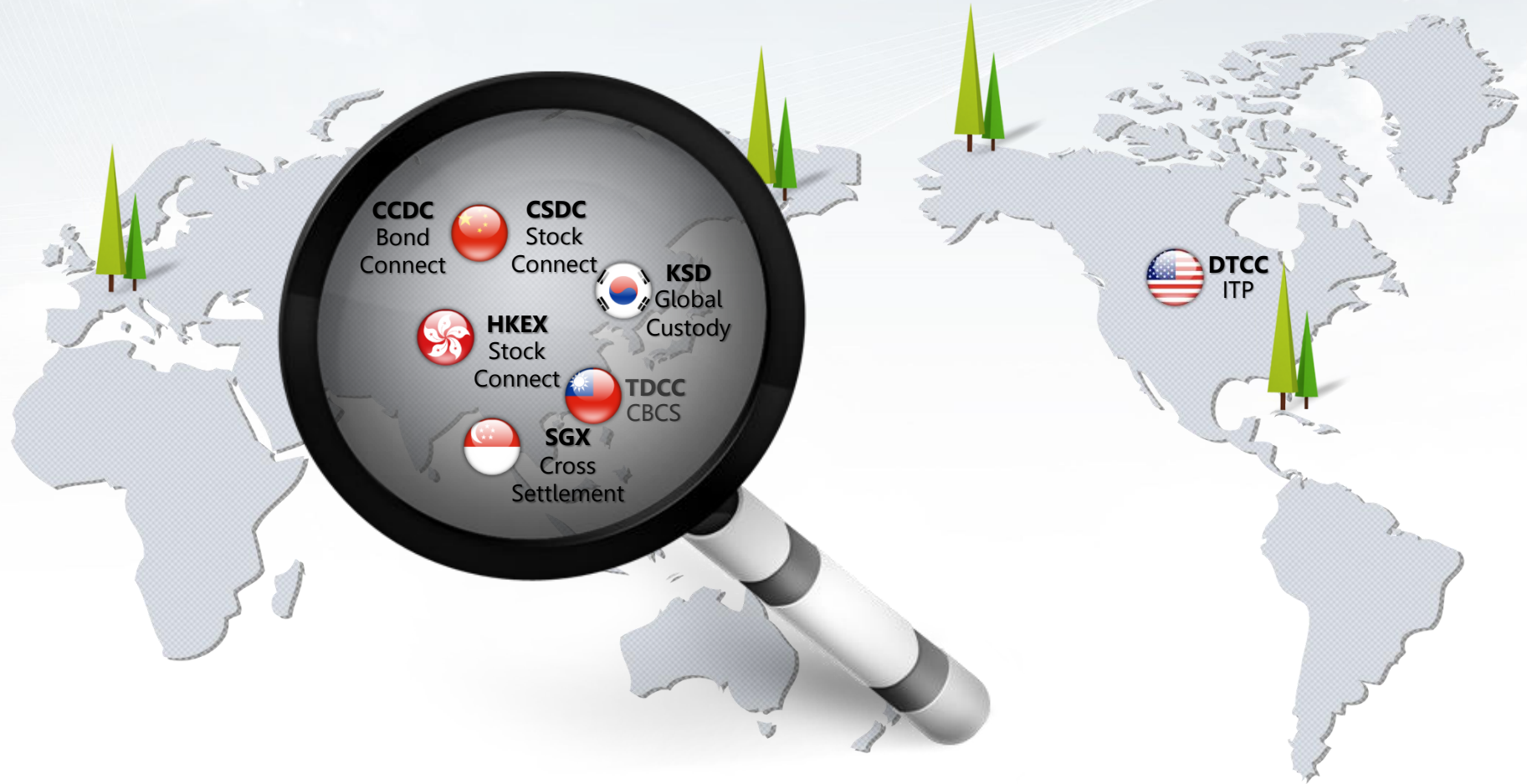


I. CSD & Back-office operations

II. Asian CSDs' Experience

III. Implications

Asian CSDs' Experience: Cross-Border Services

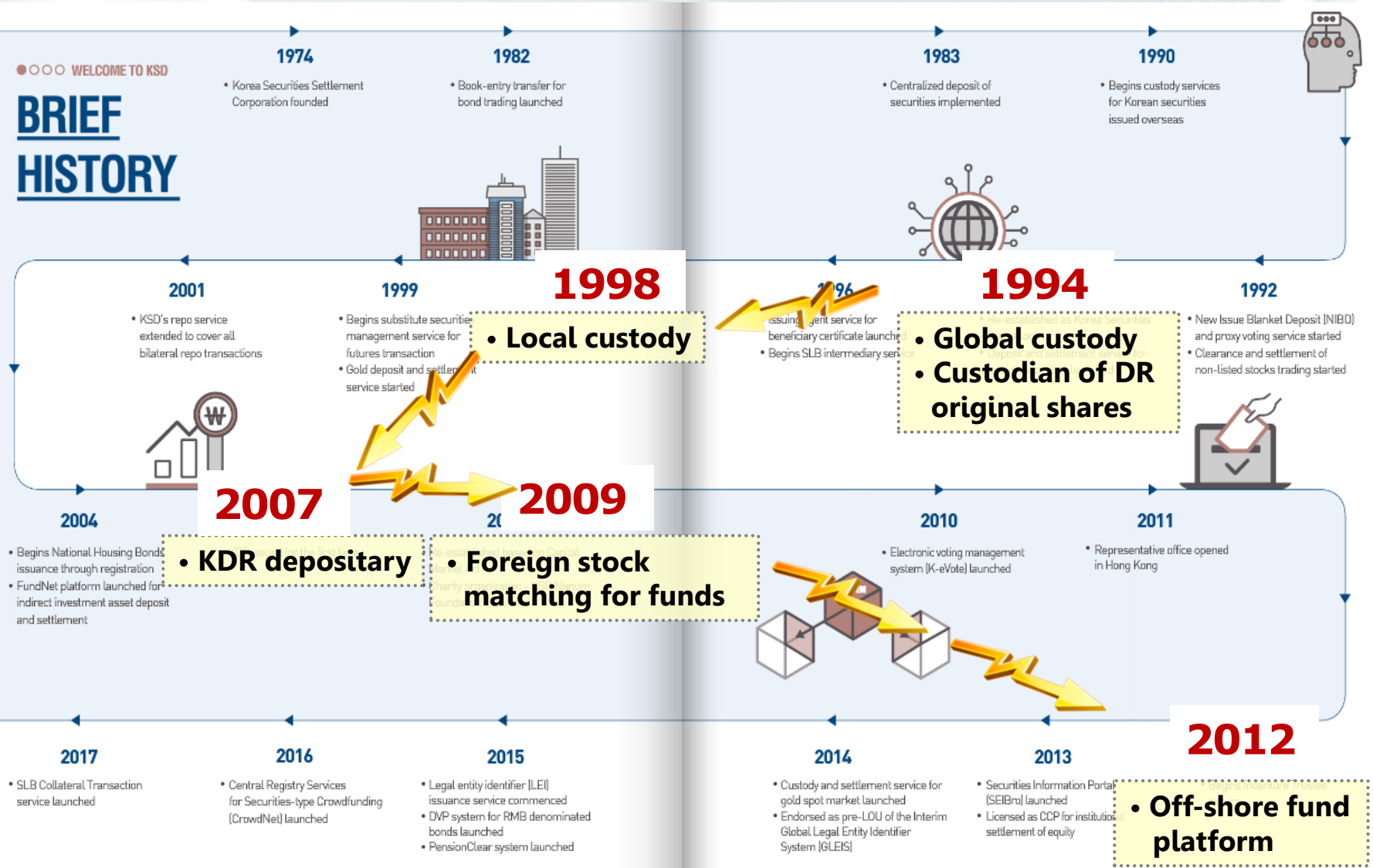


Asian CSDs' Experience: KSD Cross-Border Services - History



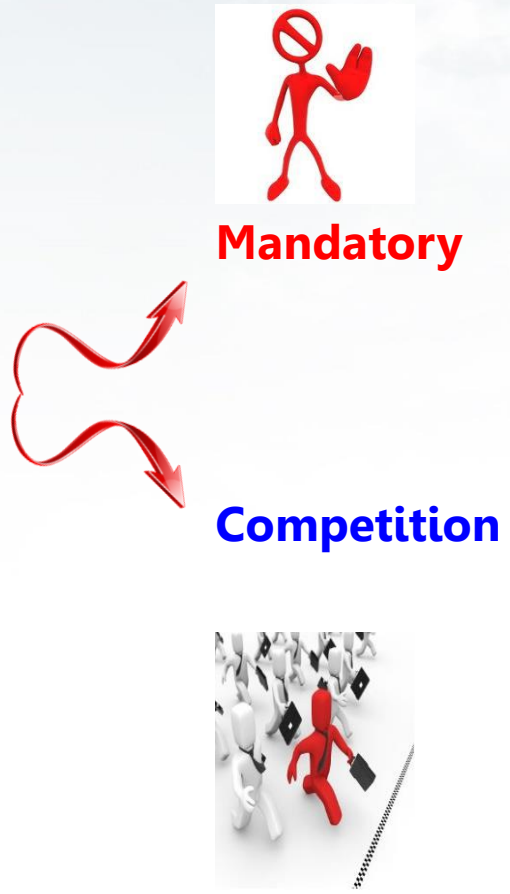
○○○ WELCOME TO KSD

BRIEF HISTORY



■ **Based on User & Market**

User	Foreign	<p>● (2007) KDR Depository</p>	<p>● (1998) Local Custodian</p>
	Korean	<p>● (1994) Custodian of DR Original Shares</p>	<p>● (1994) Global Custody</p> <p>● (2009) Foreign Stock Matching for Funds</p> <p>● (2012) Off-shore Fund Platform</p>
		Primary market	Secondary market
Market			



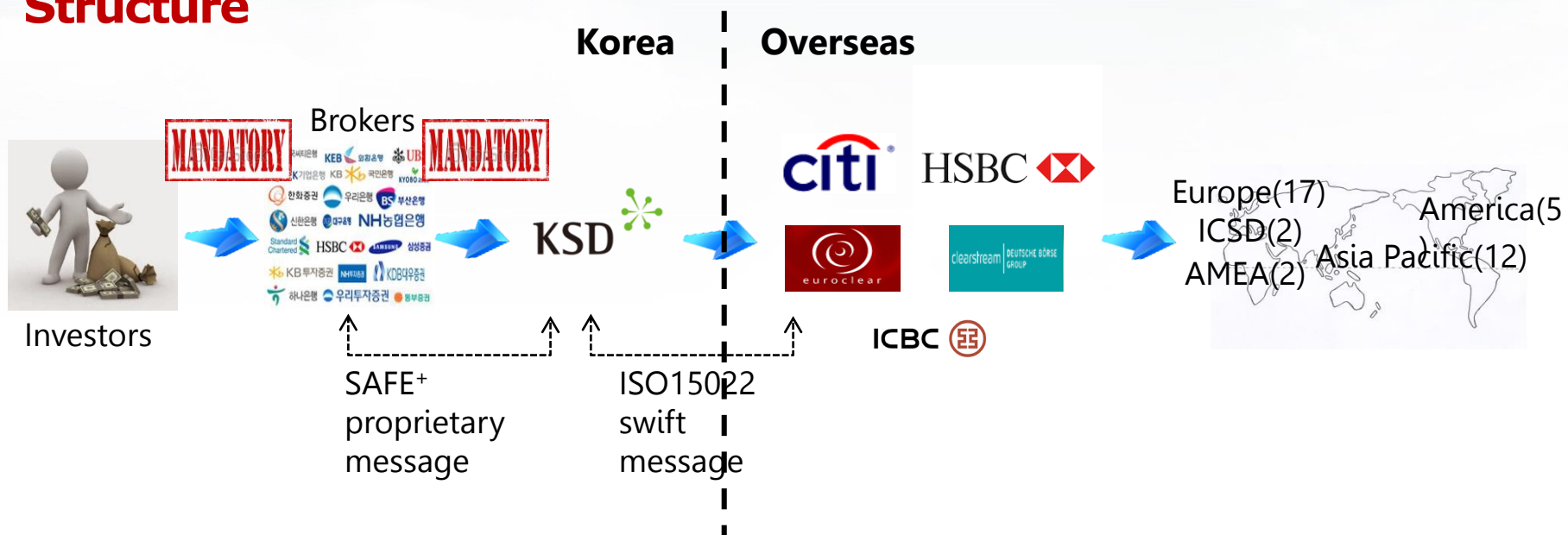


Asian CSDs Experience: KSD Cross-Border Services, Global Custody

Overview

- Most representative cross-border service
- Comprehensive service for resident investors to **directly invest** in foreign securities
- Settlement, safekeeping and corporate actions
- Mandatory: No exception for Korean brokers

Structure

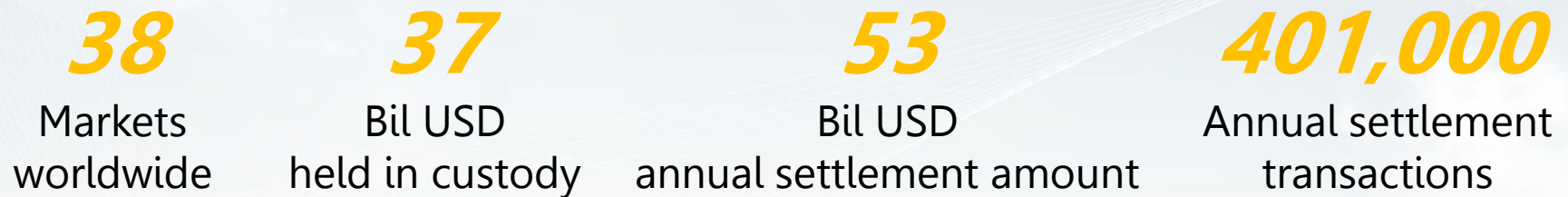


- 5 service providers (2 GC, 2 ICSD, 1 LC)
- Domestic proprietary message ↔ ISO15022 swift message

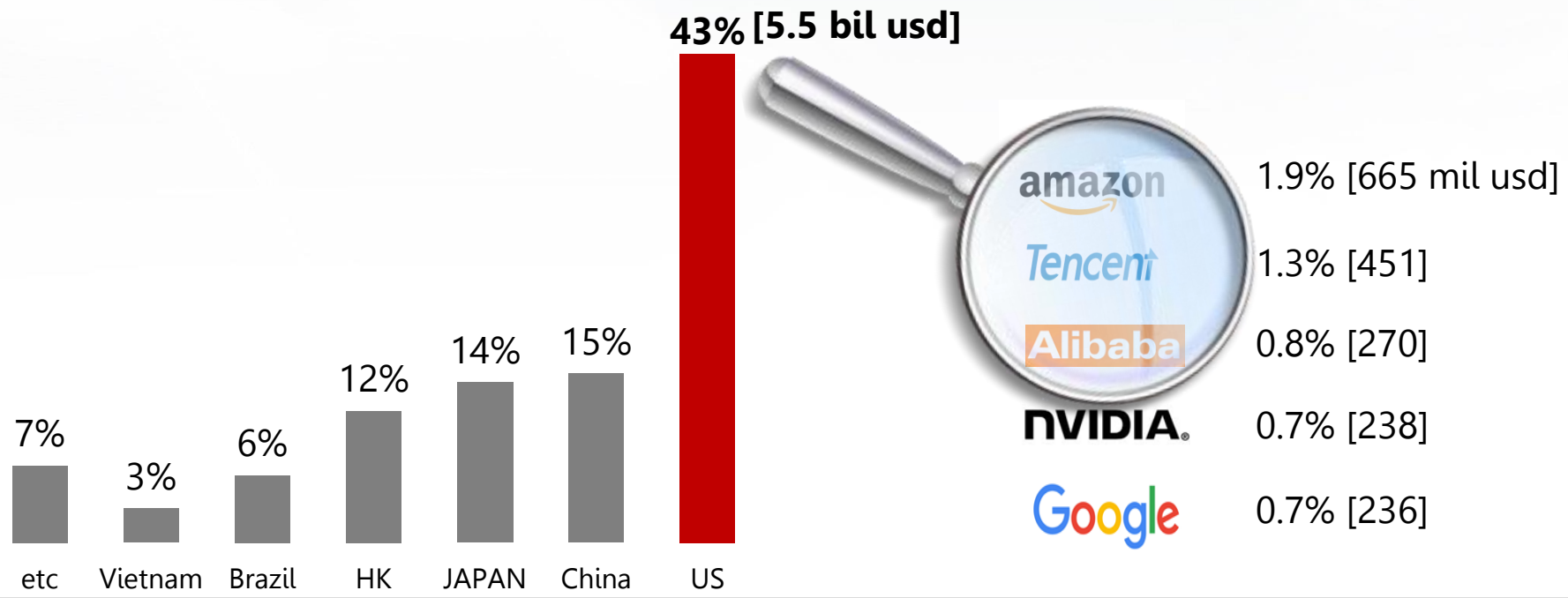


Asian CSDs Experience: **KSD Cross-Border Services, Global Custody**

Numbers as of end of 2017



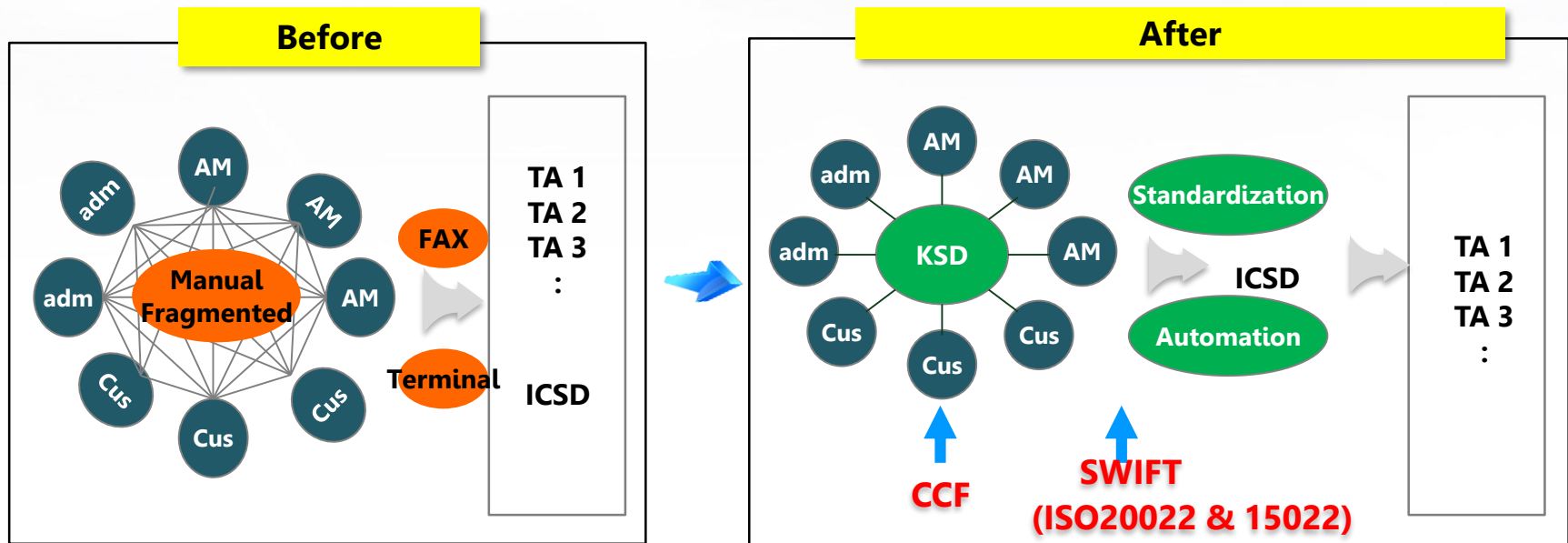
Market & Stock (Excluding Eurobond market, amount in custody, as of June 2018)



Overview of OSP(Off-shore Fund Platform)

- Extension of global custody into investment funds
- Comprehensive service for domestic FoF to invest in foreign-domiciled fund
- AC management, order routing, settlement, safekeeping and corporate actions
- Voluntary: One option out of TA, global platform and KSD platform

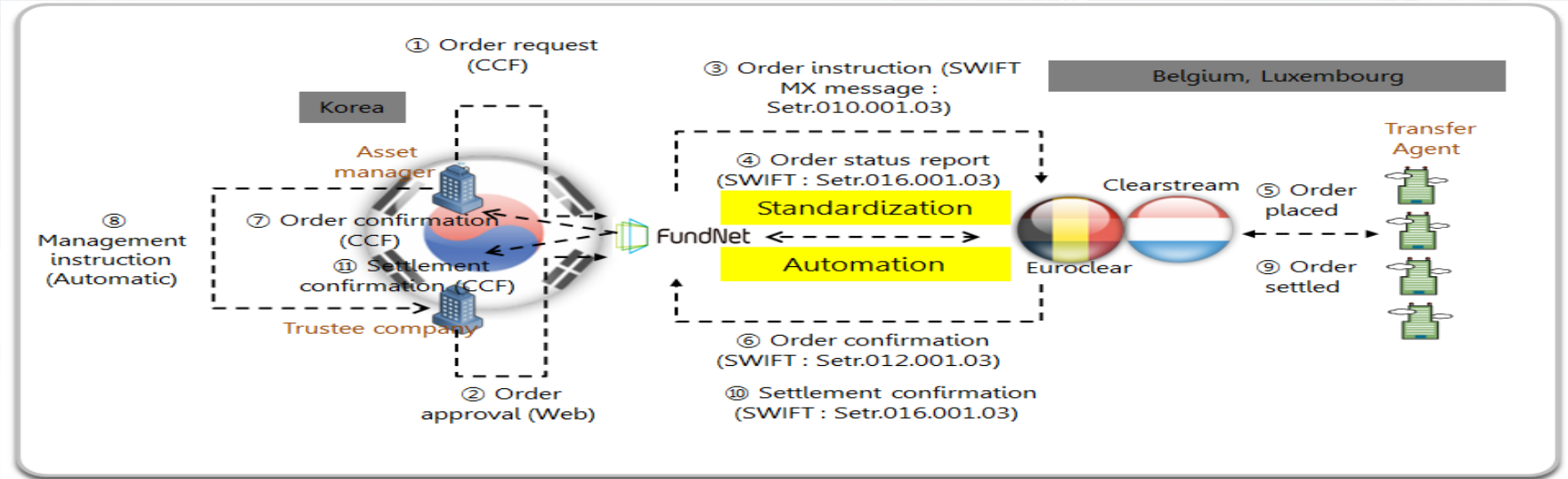
Standardization & Automation



Asian CSDs Experience: **KSD Cross-Border Services, OFP**

■ Structure

- First utilization of ISO20022 fund messages in KR



■ Numbers as of July 2018

29 asset managers

10 custodians

202 domestic FoFs

257 off-shore funds

9.7 bil USD in custody

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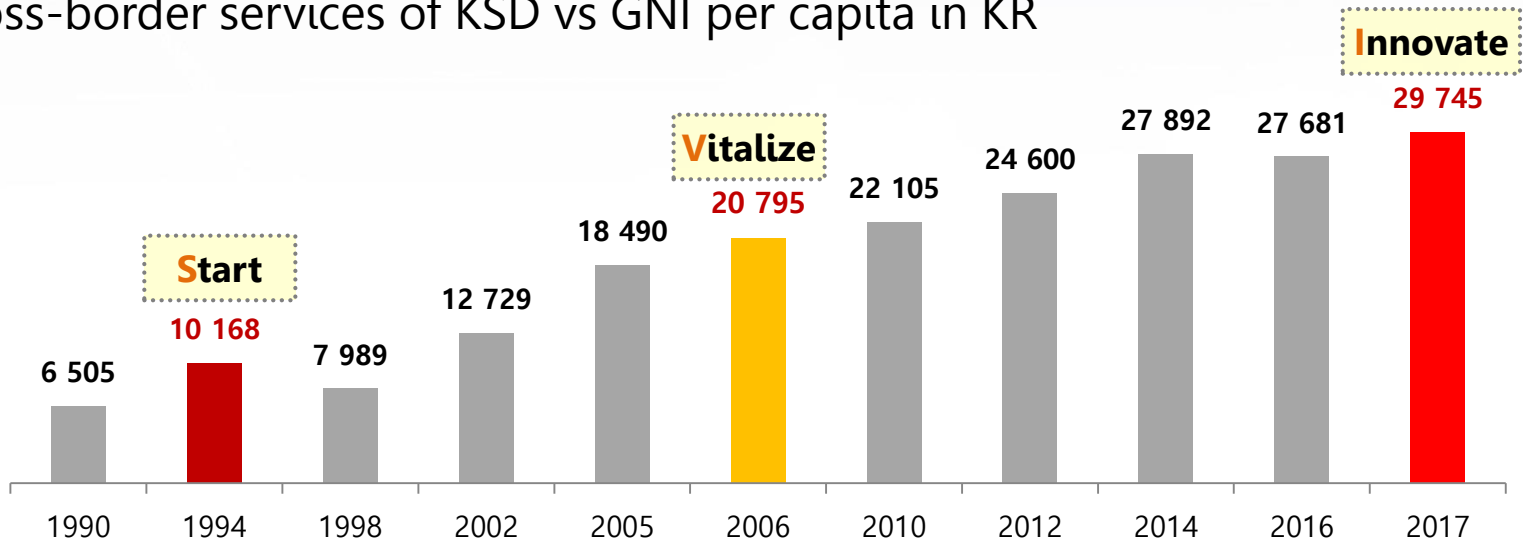
Implications: Words to AECSD

■ New growth engine of CSD

- ≈7% out of KSD total revenue(as of 2017)
- Potential
 - ✓ Potential revenue increase
 - ✓ Opportunity of collaboration with global players
 - ✓ Establish presence

■ Timing for CSD to consider cross-border services

- Cross-border services of KSD vs GNI per capita in KR



Thank You

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